REPORT OF THE AUDIT OF THE MCLEAN COUNTY SHERIFF

For The Year Ended December 31, 2007

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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE
MCLEAN COUNTY SHERIFF

For The Year Ended
December 31, 2007

The Auditor of Public Accounts has completed the McLean County Sheriff's audit for the year ended December 31, 2007. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by $3,684 from the prior year, resulting in excess fees of $16,151 as of December 31, 2007. Revenues increased by $6,669 from the prior year and expenditures increased by $2,985.

Report Comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Advertise For Bids For Purchases Over $20,000
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Should Have Entered Into A Written Agreement To Protect Deposits

Deposits:

The Sheriff's deposits as of January 5, 2007 were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured $1,166,560

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry Whitaker, McLean County Judge/Executive
The Honorable Frank S. Cox, McLean County Sheriff
Members of the McLean County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the Sheriff of McLean County, Kentucky, for the year ended December 31, 2007. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2007, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 12, 2008 on our consideration of the McLean County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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The Honorable Larry Whitaker, McLean County Judge/Executive
The Honorable Frank S. Cox, McLean County Sheriff
Members of the McLean County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following report comments:

- The Sheriff's Office Lacks Adequate Segregation Of Duties
- The Sheriff Should Advertise For Bids For Purchases Over $20,000
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Should Have Entered Into A Written Agreement To Protect Deposits

This report is intended solely for the information and use of the Sheriff and Fiscal Court of McLean County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

November 12, 2008

MCLEAN COUNTY
FRANK S. COX, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2007

Revenues		
State - KLEFPF		$ 20,670
State Fees For Services:		
Finance and Administration Cabinet	$ 50,079	
Sheriff Security Services	9,491	59,570
Circuit Court Clerk:		
Fines and Fees Collected	4,238	
Court Ordered Payments	10	4,248
Fiscal Court		300
County Clerk - Delinquent Taxes		1,514
Commission On Taxes Collected		111,460
Other Fees on Tax Collections:		
10% Add-On Fees	15,514	
Advertising Fees and Costs	2,616	18,130
Fees Collected For Services:		
Auto Inspections	3,700	
Serving Papers	20,565	
Carrying Concealed Deadly Weapons Permits	1,465	25,730
Other:		
Miscellaneous		790
Interest Earned		157
Borrowed Money:		
State Advancement		57,000
Total Revenues		299,569

MCLEAN COUNTY
FRANK S. COX, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
For The Year Ended December 31, 2007
(Continued)

Expenditures		
Operating Expenditures and Capital Outlay:		
Personnel Services-		
Deputies' Salaries	$ 51,810	
KLEFPF	20,670	
Contracted Services-		
Advertising	1,712	
Materials and Supplies-		
Office Materials and Supplies	4,109	
Uniforms	3,907	
Other Charges-		
Law Enforcement	10,305	
Cell Phones	5,173	
Postage	5,098	
Miscellaneous	1,825	
Dues	665	
Carrying Concealed Deadly Weapon Permits	610	
Conventions and Travel	439	
Training	150	
Court Security	47,032	
Fiscal Court Summons Fees	3,610	
Capital Outlay-		
Office Equipment	1,572	$ 158,687
Debt Service:		
State Advancement		57,000
Total Expenditures		215,687
Net Revenues		83,882
Less: Statutory Maximum		66,038
Excess Fees		17,844
Less: Training Incentive Benefit		1,693
Excess Fees Due County for 2007		16,151
Payment to Fiscal Court - February 12, 2008		15,516
Balance Due County at Completion of Audit		$ 635

The accompanying notes are an integral part of this financial statement.

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2007 services
- Reimbursements for 2007 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2007

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year. Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The McLean County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were not met for one depository institution, as the Sheriff did not have a written agreement with one depository institution until March 12, 2007. As of December 31, 2007, the requirements as noted above were met for all depository institutions.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The McLean County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). On January 5, 2007, the Sheriff's bank balance was exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured $1,166,560

MCLEAN COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2007
(Continued)

Note 4. Drug Forfeiture Accounts.

The Sheriff maintains two drug forfeiture accounts. One account is for forfeited property resulting from state and local drug convictions, and the other is for those forfeitures resulting from federal drug convictions.

A. State and Local Drug Forfeiture Account

The State and Local Drug Forfeiture account had a beginning balance of $23,307 on January 1, 2007. Receipts during the year were $15,558 and expenditures were $27,224, resulting in an ending balance of $11,641 as of December 31, 2007.

B. Federal Forfeiture Drug Account

The Federal Forfeiture Drug account had a beginning balance of $989 on January 1, 2007. Receipts during the year were $1,278,810 and expenditures were $383,634, resulting in an ending balance of $896,165 as of December 31, 2007. During 2007, the Sheriff invested $500,000 of the funds in two certificates of deposit and earned $8,025 in interest resulting in an ending investment balance of $508,025 and a cash balance of $388,140.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Larry Whitaker, McLean County Judge/Executive
The Honorable Frank S. Cox, McLean County Sheriff
Members of the McLean County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the McLean County Sheriff for the year ended December 31, 2007, and have issued our report thereon dated November 12, 2008. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the McLean County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comments and recommendations to be a significant deficiency in internal control over financial reporting.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

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Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the McLean County Sheriff's financial statement for the year ended December 31, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Sheriff Should Advertise For Bids For Purchases Over $20,000
- The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Should Have Entered Into A Written Agreement To Protect Deposits

The McLean County Sheriff's responses to the findings identified in our audit are included in the accompanying comments and recommendations. We did not audit the Sheriff's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, the McLean County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

November 12, 2008

COMMENTS AND RECOMMENDATIONS

MCLEAN COUNTY
FRANK S. COX, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Year Ended December 31, 2007

INTERNAL CONTROL - MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

Our review and evaluation of the Sheriff's internal controls disclosed a lack of segregation of duties. The Sheriff's office has only two office deputies. Both office deputies collect receipts. One of the deputies also performs all of the bookkeeping functions for the office in addition to preparing and making deposits, approving daily checkout sheets prepared by another deputy, and preparing, signing, and mailing checks. Good internal controls dictate that these duties be segregated. Some procedures that may help are listed below.

The Sheriff or another employee who does not have access to bookkeeping records, cash receipts, cash disbursements, bank records, or statements should periodically:

- Examine the daily checkout sheet and agree to the deposit ticket, cash receipts ledger, and bank statement. Documentation of the comparison should be evident on the records noted.
- A comparison of the receipts and disbursements ledger to the monthly and quarterly reports should be performed and documented. A final comparison to the Sheriff's fee settlement should also be made.
- Review all checks written and compare to invoices, evidencing approval of invoices and checks by initialing or some other method.
- Monthly bank reconciliations should be performed and the reconciler should receive the bank statements unopened.
- Perform the occasional surprise cash count in the middle of the workday.

Sheriff's Response: We are doing the best we can.

STATE LAWS AND REGULATIONS:

The Sheriff Should Advertise For Bids For Purchases Over $20,000

The Sheriff purchased six vehicles from the Federal Forfeiture Drug account during 2007. The total expended by the Sheriff for these vehicles was $158,630 and each vehicle's purchase price exceeded $20,000. KRS 424.260 requires the Sheriff to advertise for bids for equipment purchases exceeding $20,000. We recommend the Sheriff advertise for bids for all expenditures exceeding $20,000 as required.

Sheriff's Response: We did not believe this applied to drug fund.

MCLEAN COUNTY
FRANK S. COX, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Year Ended December 31, 2007
(Continued)

STATE LAWS AND REGULATIONS: (Continued)

The Sheriff Should Require The Depository Institution To Pledge Or Provide Sufficient Collateral And Should Have Entered Into A Written Agreement To Protect Deposits

On January 05, 2007, $1,166,560 of the Sheriff's deposits of public funds were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), financial institutions maintaining deposits of public funds are required to pledge securities or provide surety bonds as collateral to secure these deposits if the amounts on deposit exceed the $100,000 amount of insurance coverage provided by the Federal Deposit Insurance Corporation (FDIC). The Sheriff should require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. The Sheriff should have entered into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution before depositing public funds with the financial institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff did not have such an agreement until March 12, 2007 with one of the financial institutions in which the Sheriff's deposits of public funds were maintained and sufficient collateral was not pledged to secure the Sheriff's deposits as of January 5, 2007. Both of these conditions were corrected as of December 31, 2007. We recommend the Sheriff closely monitor the collateralization of deposits and obtain a written agreement with the financial institution as denoted above before depositing public funds in the future.

Sheriff's Response: This was corrected